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ABSTRACT

This handbook is designed to assist childcare executive officers (CEOs) in managing the finances of their programs. The guide is divided into five sections. Section 1, "Financial Entrepreneurship," advocates the adoption of an entrepreneurial spirit in directors and recommends: (1) becoming the Chief Executive Officer of the program; (2) actively pursuing revenue for the program; (3) keeping abreast of the finances of the business at all times; and (4) involving the team in the management of the business, not just in the care and education of the children. Section 2, "Financial Forecasting," discusses the importance of fiduciary responsibility for the CEO, the role of the accountant, the art of budget building, revenue and expense forecasts, functionalized budget design, the use of account numbers, budget revision, cash flow projections, budget spreading, and 10 key indicators of fiscal management strength in early childhood businesses. Section 3, "Financial Practices," presents financial competencies for business directors, steps in conducting a cost analysis, and characteristics of annual financial audits. Section 4, "Financial Reporting," discusses required financial reporting forms, defines operating ratios, differentiates restricted and designated funds, and discusses petty cash, purchase orders, receipting income, accounts receivable and payable, financial statement development and interpretation, the use of financial statement for cash flow decision making, and balance sheet development. Section 5, "Financial Toolbox," contains worksheets for costs analysis, financial statements, balance sheets, income and expense budgets, and cash flow projections. The publication also lists topics for future chapters. (KDFB)

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Financial Management

for Childcare Executive Officers

Karen Foster-Jorgensen
with Angela Harrington

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About the Authors

Karen Foster-Jorgensen is Vice President and co-owner of the consulting firm, Management Results, Inc. She is a consultant and trainer specializing in management and organizational development for the education fields.

Karen holds a BS degree in early childhood and elementary education from the University of Minnesota. She is currently a MBA candidate. She has taught in public, private, and Montessori schools and preschools.

Karen was a certified professional director in the YMCA for nine years, serving as Executive Director of YMCA's in Indiana and Pennsylvania. The Mid-America region of the YMCA honored Karen in 1977 as the young executive of the year.

Karen founded and directed two educational preschool childcare centers, serving over 200 families. One of these center - built on-site for a large medical facility - was cited by the Ford Foundation as a model of efficient, creative childcare management and outstanding childcare building design. Karen was also instrumental in founding a new National Association for Education of Young Children chapter and has served on a statewide task force rewriting childcare licensing regulations.

Karen is a board member of the Early Childhood Directors Association and President of the Board of Directors of the Montessori charter school, the World Learner School of Chaska.

Angela Harrington has been described as an "Entrepreneur with a heart in providing quality experiences for children." Angela has a degree in behavioral science and has held various positions in both the business and childcare communities. Her current venture is "CEO" of *Lifetime Kids*, an early childhood program she founded in conjunction with a local fitness facility.

Forward

It was suggested to me recently that the Early Childhood Directors Association publish a book on financial management. Many directors with whom I have spoken have come "up through the ranks" to find themselves in a position that not only requires a knowledge of child development but also finances, personnel, regulations, communication, and marketing; not to mention cooking, cleaning, and plumbing.

I too experienced the "baptism by fire" when I awoke one day to find myself responsible for a childcare center with very little related experience or education. In the finance department, I had never developed a budget, let alone a cash flow analysis or month end report. But there I was arbitrarily plugging numbers into a budget sheet. Based on what? Last years budget and financials were nowhere to be found and the checking account did not reflect the amount of debt we were actually carrying. I muddled through, never quite making adequate progress.

This handbook was developed to assist childcare executive officers, CEO's (yes that's you), in managing the basics of finances. To eliminate the guesswork. I encourage you to use this handbook as a working document. The binder format allows you to keep your own financial information along with the reference materials and worksheets.

Angela starts us off with *Financial Entrepreneurship* to get us in the right frame of mind to tackle our finances. Karen then provides us with the information and tools to begin making sense of the numbers that allow us to support our business of early childhood care and education.

Susan Peterson
Executive Director; ECDA

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Financial Entrepreneurship

Childcare is quite possibly one of the most difficult jobs on earth. Not many occupations require such a sense of balance in judgment as does the childcare director. You must make decisions on behalf of the children you serve, but you must also make sound business decisions in order to continue operating your program. I believe that most directors make good decisions on behalf of children and staff. It seems that through education and experience, most directors are quite competent in the children's programming arena. Director creativity also abounds in how to stretch a dollar, but not much attention, or training is given related to the generation of more dollars. We must start giving more attention to the business side of our programs and start overhauling the business of childcare.

Providing high quality care to children is a difficult task. High quality costs money. In order to stay competitive, centers must look and feel clean, have nice equipment and be housed in nice facilities. Money. Hiring competent staff in an already underpaid field is vital to high quality early childhood education. More Money.

A family with two children in a center based childcare program may be paying an average of $1000.00 per month. It's not that most parents don't want to pay more for childcare, most just simply can't. With government cut backs we certainly can't expect any public money coming anytime soon. Given that childcare centers across the nation on average have a relatively low profit margin, it is not feasible that big business, a venture capitalist or anyone else is going to invest in childcare.

So where is this money to fund the high cost of quality programs going to come from? Where is the money going to come from to pay staff what they are worth? We all know the importance of early childhood education and that early childhood educators should be paid as handsomely as queens for educating and caring for our most precious commodity on earth. And that men and women who run childcare and education programs should be paid as equally as managers with similar fiscal and supervisory responsibilities.

Where in the world is this money going to come from? If Directors can start thinking creatively about revenue generation, just as they do with children's programming and stretching dollars, they can revolutionize the childcare industry. How will such a revolution manifest itself? If more revenue is generated, they will be able to pay staff and themselves what they are worth. Opportunities to improve childcare quality will become more readily available by easing financial stress. Childcare centers nationally will increase profit margins, thus creating investment interest from big business, venture capital groups and others. The answer to the question of where this money is going to start coming from is You! You and your creative entrepreneurial spirit. You have the opportunity to change the childcare industry and ease the financial crisis.

We must adopt an entrepreneurial spirit and think of ways to generate revenue. This means not accepting the "There's nothing I can do" attitude. There is a lot you can do if you just step out of the grind and let your imagination run. First, you must become a CEO. Second, you must actively pursue revenue anyway you can. Third, you must keep your finger on the financial pulse of the business at all times; and fourth, you must involve your team in the management of your business, not just in the care and education of children.

Become The CEO

The first step in beginning your quest to bring more money into your program is changing your own mind set about your occupation and your own worth. You must begin by changing your title of childcare director, at least in your own mind. You must become the Chief Executive Officer or CEO of the company that you manage. I truly believe that many people in business are paid as they are because of their own self worth. But to truly be the CEO of an organization, you must abandon certain rituals and adopt new ones. If you prefer we can change the acronym to mean Childcare Executive Officer. Either way, remember, you run a business. A business with no better mission on earth – to care for and educate young children. Here are some do's and don'ts to start thinking and acting like the CEO that you are:

DON'T*	DO
Only attend seminars on make-it-take-it, toilet training, finger plays or any such seminar or conference where only childcare personnel attend. Spend this money on your staff. You probably already know your stuff about childcare and early childhood education or you wouldn't be where you are today.	Attend conferences that business people go to. Leadership, marketing, finance, venture capital, entrepreneurship, small business management, or anything inspirational targeted to business people.
Only read journals, books and magazines that pertain to teaching, child development, and classroom teaching. Your task is to manage the business. Leave the education and the classroom management to the staff.	Read business periodicals like *Success* Magazine, *Fortune*, *Business Weekly*, the "Business Section" of your local newspaper. Read books like *Excellence Lessons Learned from America's Best Run Companies, Guerrilla Advertising, Guerrilla Marketing,* and *Managing the Day Care Dollars.*
Take college classes on child psychology and curriculum planning. (If you start generating more money, you'll be able to hire the staff with the education and experience you want.)	Take graduate classes in finance, accounting, marketing, and entrepreneurship.
Think that it is a sin to make money in childcare and that money shouldn't be important if you truly love children.	Consider yourself a profit making business (whether you are technically classified as non-profit or for-profit is irrelevant) and realize that businesses are in business to make a profit to become better businesses.
Make sure your entire wardrobe could get finger-paint smeared all over it and still wash up great.	Have at least one suit that you could be photographed in for *Fortune 500* magazine.

*For those of you in Director/Teacher positions, you will need to strike a balance that allows you to function well in both teaching and management.

OK. So now you feel and behave like the business manager you are. You walk the walk and talk the talk of the CEO, now Childcare Executive Officer. Now what? How are you going to generate more revenue into your program (OOPS, I mean business) to make it more viable and effective.

Actively Pursue Revenue Any Way You Can Think Of Rule:

Figure out who has money and ask them for it

What? Yup that's right. Look around your center - I mean business. What other businesses are there? Is IBM right across the street? How about the local grocery store? Unless you are out in the middle of a field, chances are businesses are abounding right in your back yard. Childcare is one of the most significant benefit issues of major corporations today. You can bet that childcare has been discussed more than once at their board meetings. Many large corporations are now putting childcare centers right in their own facilities. Why? Because good childcare, close to the work place, increases employee retention and productivity and decreases absenteeism. All of which goes right to the company's bottom line. Theirs!

RULE : Talk to your customers. Where do they work? Where do they play? What ideas can you gain about providing services from the parents you see every day? Networking means possibilities for partnerships and many benefits for your business.

IDEA : ABC Childcare Center is located across the street from XYZ 24 hour Grocery Store. Mary Peters, the director, knows that 3 year old Kate's dad is the Day Produce Manager at the Grocery Store. One night as Kate's dad is picking up Kate, Mary asks him how many people the grocery store employs, and how many he thinks have kids. Upon estimating that about 80 employees have kids where he works, she asks him if there is anyone he recommends talking to about setting up a partnership with the grocery store. He gives her the name

of Fred Smith, the Store Manager. Kate's dad then talks about how he was offered an evening manager position with a raise but because childcare is unavailable in the evenings, he had to turn down the promotion.

Mary begins to think of all the ways both businesses can benefit from each other and comes up with this plan and benefit list:

PLAN	BENEFIT
Provide childcare to XYZ employees at a discounted rate.	Insures usage at ABC.
Ask XYZ to guarantee a certain number of childcare slots.	Allows ABC to increase fiscal stability.
Ask XYZ to subsidize a small portion of the childcare cost.	Improves loyalty, increases productivity at XYZ. ABC decreases child turnover.
Suggest that the company increase the subsidy based on job longevity.	Provides incentive for employees to stay at XYZ.
Ask that food surpluses be provided to ABC at greatly reduced prices or free.	Companies look for ways to reduce inventory on lots of items and can write this off.
Allow drop-in childcare to XYZ employees for those times when employees are unexpectedly called into work. Charge a premium rate for this service.	The number one reason employees cannot come in unexpectedly is the lack of childcare arrangements. This will make XYZ manager's job much easier. ABC will increase revenues due to premium rate income.
Stay open until the 9 PM shift change.	Increases the amount of mature staff available during evening hours at XYZ. Increases the number of hours ABC is producing revenue. You are paying rent after 6:00 PM, so why not generate income after 6:00 PM.

This is just one idea of how parents can lead you to partnerships and how just looking around your center can spawn new ideas of fortitude and opportunity for increased revenue generation. As you look around your center, don't forget to look inside your center as well for revenue producing ideas. Are there other services you can provide? Start thinking and get moving.

If you try 100 things you're bound to fail at 90 of them. But that means success to 10 and who knows how many successful dollars to your bottom line. If you only try three ideas your odds are that you will fail at all three. Remember though, that entrepreneurship is not just about creativity, it's about forecasting cause and effect in terms of dollars and balancing. Entrepreneurship then becomes putting ideas into action and fervently pursuing its rewards.

RULE : Make sure to put numbers to paper in figuring out the profitability of your idea.

Keep Your Finger On the Pulse of Your Business At All Times

Forecasting cause and effect in terms of dollars is a little like the scientific method that we learned about in school. It means putting numbers to paper or preferable on your computer to figure out how your ideas will benefit your bottom line while balancing it with the quality childcare issues that you already know so well.

First, I must make note of how important it is to have the right tools in forecasting. You may literally sit down with a calculator and your writing pad and add and subtract and multiply your numbers by hand which is better than nothing. But a good software accounting program is essential if you really want to get a good look at how your business is doing and how the new entrepreneurial ideas will affect it. There are a lot of childcare management software packages on the market that are great for keeping track of employee time, child to staff ratios, child immunization records and all manner of things that relate to the operational side of your business. But they don't allow you to get financial statements at the click of a mouse or see how your business is doing each day. If you are surprised by your financial statements at the end of the month, you have a problem.

This is what I mean by keeping your pulse on the business. As we discussed, childcare organizations many times have slim profit margins. Therefore, one day of untimely decisions with respect to wages or any expenditure can ruin you if you find out about them at the end of the month, rather than each day. You must check the pulse of your business daily to find out if it is working as it should: is it getting a good cardiovascular workout or is it about to have a coronary arrest?

Even if your financials are done by an outside entity and not by you or someone you supervise, YOU must have up to the minute information about your business fiscally if you are to make good entrepreneurial decisions. I really recommend having some way to access the daily financial statements especially crucial in growing a business. Perhaps you can link up with your accountant through a modem if she is off-site or start entering your own information on an accounting software. It only takes minutes each day and it can mean the difference between making money or going out of business.

SUGGESTION : Quick Books Pro is a great business accounting management tool and extremely easy to use. It will allow you to see what's happening right now, as well as play with ideas you'd like to try next. You can see how the fabulous, new ideas you have will shape your bottom line.

Involve Your Team In the Management of Your Business, Not Just Teaching

So, you are now the CEO. You will need some managers to go with your business. Even though lead teachers must focus on teaching and upholding high standards of early childhood care and education, you must enlist their help in growing the business. You cannot catapult your business into financial prosperity alone. If you think you can, you are in for much disappointment and failure.

You need to involve your lead teachers in the decisions you make. They probably have some excellent ideas about generating revenue and creative business growing. It's time for leadership and guess what – you're the leader of the ship. You must get them to buy into your

voyage to the new world of great profits. Otherwise, you will feel as though you're sailing in circles with lead teachers crashing on your deck, threatening to sink the very ship that you had hoped could get them all to the promised land.

Sit down with your staff and share your new CEO title and allow them to creatively pick their own titles. Pre School Division Manager is a good example. They never stop being teachers but allow them to understand how the business works and why they didn't get raises last year and how your plan might change that in the future. Teachers most often just don't understand the nature of supply and demand, profit and loss, income and expense, and overhead and depreciation. Teach them about how a business works. Share your financial statements with them so that they see why you turned down a request for new trikes. Tell your staff where you'd like to see the business be financially and what benefits can be gained by getting there. You must get them to buy into your plans by telling them honestly where you sit economically and appreciating any revenue producing ideas they have. Share with them your new ideas and ask for feedback. Be prepared however, that if it requires any extra effort on their part, they may not be very receptive (which you undoubtedly understand because of the taxing yet rewarding nature of teaching). You need to tell them what each new idea requires and what you hope the team to gain. Share ideas about where new revenues would be allocated, whether it's to a trike fund or into marketing to generate even more revenue. Try to come up with incentives for the team, you'll need to be the coach, quarterback, and cheerleader all rolled into one. Good businesses always come up with incentives for work above and beyond expectations, you should too.

Conclusion

Childcare Directors must take the initiative to change our industry. No one else will do it or has the balance of knowledge necessary to do so. It is our responsibility to improve our own situation and that of our wonderful staff. The children need us to stand up and take charge. It was for them that we started in this field and it is for them that we must empower ourselves to really make the difference. Stop complaining about how underpaid you are. Stop feeling bad that you can't pay staff more. Stand up and do something for yourself, for

staff, for parents, and for children. Make the difference by becoming the CEO and turning your childcare center into a viable business. It is a tragedy that fast food managers make more than the people who manage businesses that care for and educate our future generation. If we begin to make strides in getting more revenue into our field through creative entrepreneurial attitudes, we will be able to attract passionate men and women who have the talent, drive, and ambition to continue the quest. No one else knows the importance of high quality early childhood care and education like you do. You must embrace the importance of business and profit. You must take charge of your destiny and that of your profession.

Fiduciary Responsibility
Does Everyone Have It?

It's not a disease, but it is catching. If as CEO's, we demonstrate fiduciary responsibilty, staff and boards have a model to follow. If as leaders, we learn and practice sound financial techniques, we develop the strong business needed to support quality care and education that is our mission.

Fiduciary responsibility is the obligation we have to people who entrust us with money. We are accountable to use that money responsibly in the ways we told the people we would. Our responsibilities are to:

- Parents who pay for quality care and education for their children
- Staff who dedicate themselves to our employment
- Board members who have legal responsibility for the corporation
- Public and private funders who subsidize children's services
- Individuals, companies or foundations who make donations
- Volunteers who donate their gifts of time
- Vendors who's products keep our businesses supplied

This book presents techniques and tools for carrying out the fiduciary responsibility of a Childcare Executive Officer (CEO). The strategies have been developed over two decades and tested in early childhood businesses large and small; for profit and not-for-profit; city, suburban and small town. I especially thank Amy Donaldson, CEO of Playworks in Prior Lake, Minnesota, for allowing me to pilot these techniques with Playworks and proving how they positively affect financial results.

The Role of the Accountant in Childcare Businesses
Does the CEO Need a CPA?

Yes! The techniques and tools in this book are designed to supplement the financial knowledge of childcare center directors. Individual centers develop their own financial teams with the director, other staff, board members, and their financial advisors. Accountants or Certified Public Accountants (CPA) are invaluable resources and this book is not designed to replace their advice or expertise.

The Fine Art of Budget Building
Where Do I Really Begin?

Whether starting a business or planning for a new fiscal year, the budget planning process begins in the same way. Drafts of income and expense budgets will be built separately with detail recorded to back up each line item. Creating projections independently for income and expense provides the most accurate picture of the program as planned for the upcoming year.

If the revenue budget is built and expenses are then maneuvered to fit the income, actual cost to deliver the planned program may not be accurately analyzed. By taking the approach, instead, of "here is the planned program, what will it yield in revenue and what will it cost to produce," we build a true picture of projected finances. If we build expenses and then simply project revenue to cover that amount, we may project an unachievable income figure.

Build the income budget with information from current business, then consider changes likely to occur in the next year. For both income and expense, note variables which could affect the finances and document each line item with specific detailed plans. These specifics become important checkpoints and spending guides throughout the budget year. (See examples in sections for revenue and expense.)

Building the Revenue Side of the Budget
How Do I Know How Much Income to Project?

As we intend to operate the program, how much revenue will it bring in? Be realistic! ***Some questions to ask when starting are:***

- When one child leaves the program, do we always fill that slot immediately, or is there time in between with an empty slot and thus no revenue?
- Does a child paying for three days per week actually end up taking up a full time slot but revenue is less than full time?
- Does your policy allow families to take vacation or sick time

away from the program without paying tuition?

- Do you anticipate a fee increase during the fiscal year?
- Are there factors in the community which may cause increases or decreases in enrollment during the coming year?
- Do you anticipate increases or decreases in outside funding such as sliding scale tuition support, public or private funding flowing into the program, special grants or fundraising projects.

For each line item, do the back up mathematical work to justify the dollar amounts budgeted. For example, let's consider a preschool tuition line item. If the fee charged is $130 per week for full time and $75 per week for half time, the back up might look like this:

20 full time enrollments @ $130 = $2600/week
20 half time enrollments @ $70 = $1400/week
Total = $4000/week

If we have determined twenty full time and twenty part time children to be full capacity, we then decide how close will the preschool room be to full capacity during the year ?

If we know that most families take the two weeks off per year for which we do not charge tuition, we will then budget our weekly amount times **fifty weeks** rather than fifty-two weeks for the year.

Our track record shows that of forty children, five will leave the center during the year. Slots average two weeks unfilled between children, leaving ten tuition/weeks per year that will be unfilled. The average tuition is $100 per week (average of $130 and $70), so we multiply ten weeks times $100 and **remove $1000 for unfilled slots**.

History of the center has shown that 5% of the families get behind in tuition and leave the center. The average owed and never collected in these situations is two weeks tuition. This indicates that on the average, two families of the forty will leave owing two weeks tuition each, so we **remove $400, four weeks tuition, for uncollectibles.**

Total line item for the preschool class income:

Full weekly potential:		
20 enrollments @ $130/week	=	$2600
20 enrollments @ $70/week	+	$1400
Total Weekly Potential		$4000
		x 52 weeks/year
		$208,000
Less:		
Two weeks - budgeted vacations		$8,000
Unfilled slots		$1000
Uncollectibles		$ 400
Total budgeted preschool tuition		**$198,600**

For each line item throughout the revenue budget, follow this pattern of building the detail dollar by dollar. The full potential revenue is figured based on fees charged and units of service provided. From this figure, subtract amounts known or likely to reduce the actual income below the potential. It is advisable to budget income somewhat conservatively since many unknowns can arise when projecting fifteen months or more in advance.

Building the Expense Side of the Budget
How Do I Know How Much It Will Cost?

Projecting expense follows a similar pattern of building from the detail upward to the line item totals. Even though historical perspective of previous years budgets and actual expenses are of value, for the most reliable budget, build each account from scratch each year. This process allows for a re-examination and justification of all of the expenses annually. It keeps away the pitfalls of "we've always done it this way" or "let's just raise each expense item 4% over last year's budget and make the process simple." These shortcut techniques limit the opportunity for the annual budget building process to be a true planning process for the business. As each line item is analyzed, goals for the

year are developed or clarified and an annual financial management plan takes shape.
An example of a line item development for expense might salaries for the toddler room:

Information needed for budgeting this line item:

1. Number of children and their attendance patterns
2. Staff/child ratio planned
3. Number of staff hours needed to cover all hours open
4. Staff positions needed according to qualifications

- Toddler room has fifteen children enrolled and is operated with a ratio of one staff person for every five children.

- Center operates twelve hours per day. Less than five children arrive before 7:30 AM, nine are usually here by 8:00 AM, twelve arrive before 9:00 AM. At the end of the day, nine children are here at 4:00 PM, four children at 5:00 PM, all have gone home by 6:00 PM. (we hope!)

- The classroom is staffed with one full time head teacher, one full time and one part time assistant teacher, and one full-time aide.

- The teacher receives $11 per hour, the assistant teachers $8 per hour and the aide $7 per hour.

Now that the facts are gathered, the budget building process can begin. Hours in the day look like this:

AM	6:00	4 children	1 assistant teacher
	7:30	8 children	1 asst. teacher, 1 head teacher
	8:00	12 children	1 asst., 1 head, 1 aide
	9:00	12 children	same
	10:00	15 children	same
	11:00	15 children	same
PM	12:00	15 children	part time asst. teacher arrives,

		covers lunch breaks
1:00	15 children	3 staff as above
2:00	15 children	Full time asst. teacher leaves
3:00	12 children	3 staff
4:30	9 children	Head teacher leaves
5:00	4 children	Aide leaves
6:00	0 children	Part time asst. teacher leaves

Total toddler staffing

Head Teacher =	8 hrs/day for 5 days/week @ $11/hour	= $440/wk
Full Time Asst.=	8 hrs/day for 5 days/week @ $8/hour	= $320/wk
Part Time Asst.=	6 hrs/day for 5 days/week @ $8/hour	= $240/wk
Aide =	8 hrs/day for 5 days/week @ $7/hour	= $280/wk

Total per week = $1280
52 weeks 52

Total toddler salaries for fiscal year = $66,560

Each account, whether it be staffing, supplies, or maintenance, is built in detail as in the example of toddler salaries above. These documented specific spending plans are the budget backup material which serve as the spending guide throughout the year.

Functionalized or Departmentalized Budgets

Which Parts of our Program Are Financially Sound?

Many managers find that functionalizing or departmentalizing their budgets makes the monthly financial report a more valuable management tool. By breaking the finances down into functioning units, such as age levels (infants, toddlers, etc.) income and expense can be tracked specifically to that unit. When choosing to continue a program or program segment (such as is often the case with infant care) despite it's loss financially, a *conscious* choice needs to be made based on other positive factors for continuation. Not knowing where each

program segment stands financially, limits decision making options. Accurate, complete financial data is a key component to sound management decisions.

Designing a Functionalized Budget

Examine the natural program segments in your organization. Many childcare programs find age groups of children to be the most useful divisions, plus any other special services or major program thrusts. Possible departments include:

Infant	Administration
Toddler	Maintenance
Preschool	Food Service
Schoolage	

Larger programs or those with a variety of programming might include:

Marketing	Hourly Care
Fundraising	Special Classes
Transportation	Community events

Each department will then have line items such as the following:

Chart of Accounts for Revenue

Tuition fees	Registration fees
Food/ meals	Product sales (fundraisers)
Government subsidies	Private Subsidies
Donations	Other revenue (field trips, special events)

Chart of Accounts for Expense

There will be more categories/line items for expense than for revenue. Among the most commonly used are:

Salaries	Payroll taxes

Insurance-Employee Health/Life	Insurance-Worker Comp
Insurance - Liability	Cost of food or meals
Staff development/training	Dues and subscriptions
Travel	Printing
Postage	Equipment/supplies - office
Equipment/supplies - classroom	Equip/supplies-maintenance

An example: classroom supplies - with the classroom teaching team, agree on an inventory level for art supplies, theme items, special projects, etc. and establish budgeted amounts for each classroom for each month of the year. For departmentalized budgets, add together all of the classroom totals for that department. Record the planned expenditures and their dollar amounts in the backup budget material.

Complete this process for each department, selecting the line items, from the chart of accounts. Use as many line items as needed to break down the financial information into useful decision making units. It is better to start keeping information in smaller units (more specific accounts) and then combine into summaries when that level of detail is not needed. Starting out with too few accounts will limit the available information breakdowns later in the year, making it necessary to go through invoices to track certain expenditures.

The following budget building worksheets may be used either for non-computerized budgets or for guideline formats when developing spread sheets. Most managers prefer to build budgets in monthly units for each account, then arrive at annual figures by adding the months across. Monthly and annual totals are obtained by adding each column down the page.

Use of Account Numbers
How Do I Keep Track of All These Accounts?

Numbered accounts are extremely useful. Numbers serve as a consistent shorthand for coding revenue and expense items to insure their placement in the proper accounts on the financial statement. Computer programs vary in their use of account numbers. Some put the line items in alphabetical order and/or number the lines sequentially. Others have

options for more standard accounting numerical categories listed briefly below:

Assets	-1000's	Staffing	-5000's
Liabilities	-2000's	Program	-6000's
Fund Equity	-3000's	Administration	-7000's
Income	-4000's	Facility/occupancy	-8000's
		Other	-9000's

Within these major categories (1000's), larger areas will be in the 100's for example, Teaching Staff - #5100. Further detailed accounts will then be in the 10's, for example, Infant Staff - #5110, Toddler Staff #5120, etc. Account numbers in 1's remain should more specific detail be useful, such as Toddler Head Teachers #5122, Toddler Assistant Teachers #5124.

The First Budget Draft

Where Do I Go From Here?

Completing these steps yields the first draft of the operating budget. *ONLY* the first draft. Most first draft budgets do not balance! What do we do at this point? Rethink and rework! Yes, it's a process, but one which will yield valuable results.

Building a balanced, useful budget tool is where finance and creativity meet. When following a proven management model for creative problem solving, the first step is:

First Step: Identify the Problem

"When we project our revenue and expense for next year, as we now envision the program, the anticipated income exceeds the anticipated expense." (less than 8% excess, even for a not for profit program is considered a very reasonable buffer for reserve or reinvesting in the business)

While this does not initially appear to be a significant problem, it deserves the same attention as the converse situation (not enough income). In a field where generating excess income is challenging and rare, we need to ask questions to uncover potential areas of concern. When income outweighs projected expense in the first draft, ask questions such as:

- Is this possible? Did I make a mistake?
- Are all expense items included? Have I left a buffer for the unexpected?
- Have I been overly optimistic about sources or levels of income?
- Have we projected unrealistic growth in enrollment or fee increases?
- Where have I projected growth from the current year? What percentages and in what specific accounts?
- Are there quality areas where additional expenses (new learning materials, staff training, an extra substitute teacher or aide, parent education materials, computer, new phone system, etc.) would be a worthwhile investment and enhance the program operation?
- Have I considered return on investment for the owner or a reserve fund for cash flow, maintenance or future needs?

In the opposite situation, the problem scenario might be identified as:

"When we project our income and expense for next year, as we now envision the program, anticipated expenses outweigh the anticipated income."

This situation presents itself more obviously and more often, as a problem. It also requires significant creative problem solving. While there is an important place for optimism, even is finance, the budget changes must be real plans. To simply say, "we'll just shave 5% of each expense item does not leave a realistic budget. If 5% is the amount needed, then documentable changes need to be made in the operation. These will be reflected in the budget detail and backup material.

Second step: Identify Possible Solutions

To identify possible solutions, begin asking questions such as:

- Is this possible? Did I make a mistake? (Very possibly not!)
- Are all the expense items included?
- Are all the income items projected accurately?
- Where are the areas of income and expense growth from the current year?
- Have I been too cautious in projecting income?
- Am I budgeting for more "rainy days" than I will realistically have?
- Are there expense items that can be deferred to a later date?
- Are there expense items that can be achieved without expending as much cash? Can we obtain donations, discounts, build something instead of buy, buy something used instead of new?
- Are there volunteers to do certain tasks instead of paid staff?
- Are there additional sources of income that are untapped?
- Do we need to work with parents, civic groups, charitable organizations to raise funds for special projects, equipment, or services?
- Are there program segments which are not cost effective and should be altered or eliminated?
- Are there profitable new program segments that could help offset some other expenses?
- Where can I bring in more revenue or reduce operating costs and still maintain high quality programs?

While much budget detail work is completed by the director or financial manager, a group problem solving/idea generation session can be helpful at this stage. By bringing the key leaders of the program areas together, many possible solutions can be generated when exploring the above questions. Using brainstorming techniques (generating multiple ideas before evaluating their merits), allows for an atmosphere of more open communication and idea flow. Explore solutions on both the income and expense sides since implementation will likely involve revision in both areas.

Third step: Evaluate and Select Solutions

Team input can be valuable with this step as well. Go back to the possible solutions generated, listing pros and cons for each. Combine ideas together, continue to seek new dimensions to solutions, discuss the ramifications of each proposal. Select solutions which have the greatest positive financial impact yet are tolerable to the program quality. This can be a challenging process for any organization, especially in a field where the largest expenditure area (staffing) is directly related to the enrollment by staff/child ratio needs. This dilemma only accentuates the need to continually develop financial competency and creative processes to address financial issues in early childhood businesses.

Rework income and expense accounts according to the alternative solutions identified above. Again record assumptions and backup detail for each account. A computer spread sheet is especially valuable at this step to try out the "what if's" of the various possible solutions. If, for example, we consider increasing tuition for each child by 4%, and plug that into our spreadsheet formulas, we can quickly evaluate the financial impact of that step. However, only the human mind can anticipate the customer and staff reactions to changes. Evaluating financial solutions needs to be a combination of dollar data and wise judgement in weighing the pros and cons of each idea.

Continue this process until a realistic, balanced budget is achieved. It may take a number of revisions, decisions, and "what-if" processes to reach the final draft. In the next section, we will discuss the process for cash flow analysis. Prior to finalizing the budget, the monthly flow of cash into and out of the business needs to be reviewed. An annually balanced budget does not guarantee that adequate cash will be available at any given time.

In the planning stages, adjustments may need to be made in the budget itself, identifying in which months cash will be available for certain expenditures. Possibly a cash flow loan or line of credit will be necessary during the year. Complete the cash flow projections at this point in the budget process and incorporate the information in the reworking process.

When this sequence is followed, the final budget is a valuable, working plan for the year. At this point, much of the annual planning is done through the steps laid out for income generation (both enrollment goals/strategies and fundraising and subsidy plans) and for itemized spending in each budget area.

Fourth Step: Implement Solutions and Follow Through

When the solutions selected result in their final budget draft, many managers find it useful to again seek feedback. By asking several trusted staff, board members, accountants or financial advisors to review the proposed budget, the likelihood of errors or omissions in the budget is reduced. If the addition is done manually, rather than by computer, have the columns of numbers counterchecked down and across to eliminate any mathematical errors.

The budget is now ready for approval and implementation. This step takes many forms in early childhood businesses of varying sizes and organizational styles. Steps might include:

- Insure that the planned income and expenses are understood by staff with financial accountability and that all the backup detail on accounts applicable is distributed.
- Put a system of purchase orders or expense approvals in place to insure that persons with financial accountability are monitoring expenses prior to their implementation.
- Setup computer or manual ledgers with the chart of accounts and approved dollar figures for each account. Work with bookkeeper, accountant, and person(s) accountable for accounts payable, receivable, and financial statements. (which are covered in later sections)
- Set up monitoring systems for income and expense to insure that finances are on target and allow for timely decision making if alterations are needed.

Cash Flow Projections

Does a Balanced Budget Mean Money in the Bank?

Cash flow projections are considered by many financial experts to be the single most important tool for financial management. Only when we plan when cash will flow into and out of the business, are we able to plan ahead for times of tight cash (which we will discuss later in this section). To create a cash flow analysis, first a draft of the budgeted income and expense must be completed.

Use the worksheet following this section to project monthly cash flow for your business. Cash flow projections can also be completed weekly or biweekly as needed. ***To anticipate cash coming into the business, the following may be important considerations***:

- On which days of the week or month are tuition payments received from parents? Tuition policies which call for payment prior to the week (or month) of service are the most advantageous for cash flow.
- When are payments received from subsidy or purchase-of-service agencies such as state or county sliding scale tuition assistance, or special needs funding? The optimum for cash flow purposes is to receive payment prior to service as you would from private tuition payers.
- Are registration fees and tuition deposits received evenly throughout the year or generally in specific periods?
- Is enrollment steady throughout the year or are there higher and lower periods?
- Do families take vacations for which tuition is not paid? Do these tend to fall mostly in summer months or around holidays?
- Will a tuition increase bring more revenue in part of the year?
- Do fundraisers or grants bring in money during certain months of the year?

To anticipate cash flowing out of the business, the following may be important considerations:

- Does payroll (the largest budget item for most programs) flow evenly throughout the year? If biweekly payroll is used, there are two pay periods in each of ten months and three pay periods in two months of the year. Does payroll rise and fall with enrollment trends? Do staff tend to take paid vacations in the summer which may mean regular payroll plus payment for substitutes?
- Will there be salary increases during the year which will increase payroll?
- Are facility costs constant throughout the year? In colder climates, heating and electricity costs rise in winter, warmer climates have higher air conditioning in summer.
- Are insurance premiums paid monthly, quarterly, or annually?
- Are supplies purchased in bulk only a few times a year, or purchased in smaller quantities more often?
- Is maintenance for buildings or vehicles done at specific times of the year?
- When are larger expenditures for equipment planned?
- Is marketing carried out at specific times of year with expense for advertising and promotions?
- Are outside services such as accounting fees incurred at specific times of the year?
- Are licensing fees or taxes due in certain months?

By analyzing each line item and projecting when activity will occur, cash flow needs can be anticipated. (See cash flow worksheet) When a first draft of cash flow projections is complete, timing of certain expenditures can be adjusted to maintain positive cash flow. When times of cash shortage are anticipated in advance, options can be considered to accelerate income, negotiate later due dates for payments, or obtain temporary cash flow loans or lines of credit.

Cash flow projections are most valuable when updated each month as financial statements are prepared and bank statements are reconciled (see financial practices section for more detail).

On the following Cash Flow Worksheet, begin by projecting cash available on the first day of the first month of the fiscal year (ending cash balance for the previous month/year). For the first month, estimate (using the monthly budget projections and answers to the questions above) the additional cash which will come in during the month. Then estimate cash which will be used to cover expenses for the month including all operating costs, any loan payments due, and reserve accounts which are funded. The cash outflow is subtracted from the total cash available to obtain the cash surplus or shortage for the month. This figure becomes the beginning cash balance for the next month, and so on throughout the fiscal year. The year end cash balance will be used to as a beginning projection for the following year.

Spreading the Budget

How Do I Know What I Can Spend When?

A budget *spread* is a breakdown of the income and expense projected for each line item account for each month of the fiscal year. When building the budget from the detail to the line item totals, the completed budget will already be spread to the twelve months. We need to decide in the budget building process how to allocate income or expense throughout the year. For example:

When spreading expense for salaries, do we allocate the same amount for each month? It depends on the pay schedule of the business. If paydays are the first and the fifteenth of the month, there are twenty four pay periods per year, two per month. If paydays are biweekly, there are twenty six pay periods, including two months with three pay periods. By planning according to the calendar, salary can be budgeted in the actual months in which it will be spent. This same planning process applies to accounts throughout the budget. Think of utilities and heating costs. Do they remain constant over the twelve months, especially in colder climates? It is important that the budget spread reflect these variations in the months in which they will actually occur. The result is statements that reflect the accurate financial status of the company.

Ten Key Indicators of

Fiscal Management Strength

In Early Childhood Businesses

1 .A written budget is developed with monthly line item breakdowns to permit effective planning and timely monitoring of income and expense.

2 .Cash flow analysis is in place to project cash needs (monthly and annually) and alert management of necessary cash flow action.

3. Monthly income and expense statements are produced to give accurate and timely financial information for management decisions.

4. Standard accepted accounting practices are used, including receipt of all income, separation of accounting duties to at least two individuals, reconciliation of bank statements, and balancing all cash receipts and expenses against line item financial statement reporting.

5. Clear policies are in place regarding accounting procedures, expense authorization, and payment due for services provided.

6. An independent financial audit is conducted annually by a certified public accountant (CPA).

7. Operating reserves are maintained for equipment replacement, building maintenance, and at least thirty (30) days cash flow.

8. Payables and receivables are less than forty-five (45) days old.

9. Restricted funds (grants, specific donations etc.) and major capital funds are separate from general operating funds.

10. A reserve account is maintained for payroll taxes, Form 990's and other government reports are filed on a timely basis, and all tax payments are current.

Financial Competencies
for Early Childhood Business Directors

The successful CEO of any business demonstrates a well developed set of competencies in management and leadership. Among these will be skills to generate and manage needed funds for the business. The acquisition of these competencies ideally involves both training and experience in financial decision making and management processes.

Competent directors demonstrate the ability and knowledge to:

1. Properly carry out the fiduciary responsibility. Demonstrate trustworthiness as the steward of the funds entrusted in the program by customers, donors, and purchasers of service.

2. Mobilize the needed financial resources (tuition, fundraising, private/public support) to carry out the mission of the organization.

3. Insure that accurate and complete financial records are maintained practicing proper accounting and internal procedures.

4. Utilize financial tools for planning and decision making, such as revenue/expense budgets, cash flow projections, financial statements, break even analysis, and balance sheets.

5. Develop and implement fee policies and structures which support achievement of the organizational goals.

6. Create and implement a compensation structure that rewards retention, high productivity, and continuous growth by the staff.

7. Establish and carefully monitor organizational performance standards which recognize the relationship between quality programming, staff performance, and financial success.

8. Responsibly manage cash, land, buildings, equipment and all assets of the business.

Financial Term Paper

or Money - Just Ignore It & It Will Go Away

1. Cash Flow Analysis is

a. what happens when the river runs too close to the bank
b. a projection of cash available and cash needed at specific times
c. considered by many as the most valuable financial tool
d. the same as balancing your check book

2. A Balance Sheet is

a. a mat used under children's gymnastic apparatus
b. a statement of assets, liabilities, and fund balances for a business
c. almost universally requested by lenders reviewing loan applications
d. something only my accountant understands

3. Financial Statements

a. are best used to gather dust on your office shelves
b. detail your income, expense, and balance sheet data
c. can show finances for a certain period and year-to-date
d. are never shown to boards, lenders, or financial advisors

4. Profit in American Business

a. is a dirty word
b. averages 3-6% of sales
c. is necessary for growth of jobs and services
d. is none of the above

5. A Spreadsheet Program

a. is a summer program activity which delights children everywhere
b. allows you to do varied financial analyses of your business
c. serves as both a valuable forecasting tool and report generator
d. lets you experiment with the ramifications of raising (or lowering) your CEO salary to $250,000 annually

6. Functional Cost Analysis

a. can be useful only in "for profit centers"
b. can be a valuable tool for businesses of any size
c. provides income and expense information by department
d. is implemented only by MBA's, CPA's, and KFJ's

How Do I Know If I'm Charging Enough to Support the Costs of Doing Business?

Cost analysis can provide answers to critical management questions. This information is a guide in setting fees, analyzing expense categories, determining optimum staff/child ratios, and establishing operating policies. (You may wish to use the worksheet on page 37).

Step 1 - Overhead Versus Direct Costs

Overhead costs are those that tend to stay constant for a period of time despite the number of children enrolled in the program. These costs include rent or mortgage payment, property taxes (if applicable), maintenance and utilities, vehicles owned or leased, and the salaries of the director, receptionist, bookkeeper, maintenance staff and other non-teaching positions. Also included will be office equipment and supplies, advertising, liability and property insurance, outside services such as accounting, legal, maintenance contracts etc. Generally costs not associated directly with classroom activity are overhead costs.

Direct costs increase as the numbers of children increase and are directly associated with classroom activity. Teacher's salaries are the largest direct cost in the childcare industry. Other direct costs include food, teaching supplies, learning materials, and small equipment.

Step 2 - Cost Analysis

Separate all of the costs into the overhead and direct categories (see work sheet) and total the dollar expenditures for each category. While these are often kept in monthly or annual record keeping units, we will be figuring cost per week for tuitions. To obtain weekly figures from annual figures, divide by 52. To obtain weekly figures from monthly figures, multiply the monthly figure times twelve, then divide by 52. Keep in mind that this gives us an average weekly cost throughout the year and that specific weeks can vary do to timing of expenses.

Step 3 - Overhead Cost per Childcare Slot

Look at the total dollar amount you have figured for overhead costs per week. Divide that number by the total number of slots or Full Time Equivalents (FTE's) in the childcare center. This will result in a dollar amount that each slot's tuition must cover for the overhead costs of running the business. If, for example, we have 80 full time slots in the center and we find that our overhead is $4000 per week, then our indirect cost is $50 per week per slot.

Note that what we call "overhead" costs are not unnecessary spending unrelated to the quality care of the children. While it is advisable to study these costs as carefully as all others, a quality program does not run without a quality business to back it up. Building costs are essential to a quality facility. Accounting costs are essential to record keeping and bill paying. Management and leadership staff are essential to guiding the program, teaching staff and business functions of the organization.

Step 4 - Direct Cost per Childcare Slot or FTE

This step is most accurately completed when figured by departments or age groups of children served. Knowing that the staff/child ratios are quite different for infant versus preschool or schoolage care, we know that the direct costs are not consistent from slot to slot throughout the program.

Decide on logical program divisions for your center and use those breakdowns for the next section. On the worksheet we have used infant, toddler, preschool, and schoolage as the key program areas. Others can certainly be added where appropriate to your business.

Using the infant area, as an example, first put in all the staff related costs - salaries, payroll taxes, health insurance, staff development and others that may apply. Then add classroom supplies, learning materials, small equipment, food, and any other expenditures related directly to teaching or care of children. Total these direct costs and divide that total by the number of slots or FTE's in that section of your program,

infants in this case. For example, we find that the direct costs are $1200 per week and we have 10 slots. We then know that the direct cost portion is $120 per week per slot.
Continue calculating the direct costs for the program divisions until a direct cost per slot is reached for each.

Step 5 - Cost to Support Each Slot

For each slot, we have now calculated the indirect and the direct costs that must be supported in order for the business to break even. Add the indirect and the direct costs together to obtain the cost per slot for each program area or division identified earlier.

To continue the infant program example; the indirect weekly costs were found to be $50 and the direct costs to be $120, then the total cost for the infant program is $170 per week.

This data is now used for management decision making in setting fees, adjusting expenditures, and planning for cash flow throughout the year.

Separation of Duties

When and Why Do I Need Two People?

To adhere to recommended accounting practices - and to protect yourself and the business, two different individuals need to be involved in the accounting functions. This provides a checks and balances system, reducing the risk or possible appearance of financial impropriety. In small organizations the second person may be a trusted teacher who takes on minor financial tasks or a board member or other trusted volunteer. Duties which are best assigned separately include:

- Crediting tuition payments records vs. preparing bank deposits
- Preparing bank deposits vs. reconciling monthly bank statements
- Approving payroll vs. signing or distributing payroll checks
- Dispensing vs. reconciling petty cash

Annual Financial Audits

What Are They & How Do They Help?

An annual audit of year end financial statements serves as a quality protection for both board and staff members. An audit is conducted by an independent CPA (certified public accountant) who does not have regular duties or any financial interest in the business. The accountant will review the financial procedures, and conduct random samplings of bank deposits, bank reconciliations, payables, receivables, petty cash, payroll and other financial records, and tax payment forms. Through thorough analysis of the financial practices, board and management staff can have the security that an expert has reviewed their work.

Independent audits may be required by mortgage or loan grantors as a way to show financial accuracy. In addition, audited statements strengthen grant proposals or other funding applications because they signal that the financial numbers are deemed reliable by the auditor.

Several types of audit reports are available. These are:

- Compilation in which the auditor compiles information given by the business managers. This information is not tested or certified reliable by the accountant. It is simply put into appropriate financial statement form as received from the business.

- Review in which the auditor can express assurance, though somewhat limited, that no significant changes need to be made to the financial statements or financial procedures of the business.

- Full audit in which the CPA thoroughly and randomly tests financial records for accuracy and reviews all accounting and financial practices. An audit in which the CPA finds areas of concern becomes what is known as a *qualified* audit. This may reflect financial stress and conditions that could cause financial failure, or it may show a need to improve the financial practices/procedures within the business. An unqualified audit is one in which the auditor found no significant factors placing the business in financial jeopardy.

Required Financial Reporting
What Do I Send To Whom?

Required financial reporting forms vary from state to state, county to county and city to city. Among those generally required are:

Income Taxes:

- FICA - social security, both employer portion and employee portion withheld from employees wages.
- Federal Income Tax - withholdings from employees wages based on the current tax withholding tables from the IRS. Each employee fills out a W4 form for withholding taxes each pay period. Federal Form 990 is filed quarterly with the tax payment. At the end of the year, the employer prepares the W2 form showing employee withholdings, with a copy going to the employee for their taxes and a copy to the IRS. Copies of federal tax forms and employer requirements can be obtained from IRS offices in person, by mail, and by fax.
- State Income Tax - Most states have state income tax which is structured similarly to the federal system.. Information for each state can be obtained by calling the state taxation office.
- Some counties and cities have their own wage tax.

Business Taxes:

- Both for-profit and not-for-profit corporations need to file federal and state business tax forms for each year.

Property Taxes:

- While many not-for-profit corporations are exempt from property tax on land and buildings, all corporations need to be aware of property taxes which are levied by counties, townships, or cities. Businesses need to have 501(c)3 tax exempt status granted from their state in order to qualify as tax exempt.

Sales Taxes:

- Not-for-profit businesses who are granted 501(c)3 status are also exempt from state and local sales taxes. However, the tax exemption I.D. number needs to be given to vendors in order for them to waive the tax. Being a not-for-profit corporation alone does not provide tax exemption.

Operating Ratios

How Do We Compare to the Industry?

While every business and it's market is unique, comparing an individual business with industry-wide averages does provide financial insight. Ratios which vary from the averages may point to potential financial pitfalls for the business.

To calculate operating percentages for your business, have available the total revenue for the year and the expenses broken down into the major categories shown below. Expenditures are stated as a **percent of revenue** -afterall, we have no more than 100% of revenue to spend.

EXPENSE CATEGORY	**Your %**	**Industry Average %**
Staffing (salary, benefits, training)	_____	61%
Occupancy (facility, maintenance)	_____	18%
Meals/snacks	_____	4%
Supplies (classroom, office, cleaning)	_____	4%
Insurance	_____	3%
Outside services (accounting, legal)	_____	3%
Pretax Surplus/Loss	_____	7%
Total	100%	100%

Restricted and Designated Funds

Who Has The Say-So Over These?

Restricted Funds

These are funds given for a specific purpose, generally as a donation from an individual, corporation, or foundation. The donor may specify that the money is to be used for one or more pieces of equipment, programs, to build a building, or any projects of the donor's choice. It is the responsibility of the receiving organization to assess it's ability to use the funds as the donor has requested.

Should a donor give $5000 for a new playground which you know will cost $50,000, can you carry out the wishes of the donor? If designated funds are accepted, then later it becomes impossible to use the funds as intended, the receiving organization must go back to the donor. The funds can be returned, or better, the donor can be asked if funds could be used for another purpose. It is the soul discretion of the donor to assign the funds to another project or ask to have them returned.

When funds are solicited for a specific project, then it is the responsibility of the organization to use them for that purpose. Money raised as scholarship funds, for example, needs to be used for scholarships.

Restricted funds are shown in a separate fund account on the balance sheet and are not mingled with unrestricted and other operating funds.

Designated Funds

These funds are designated by the board of an organization for specific purposes such as capital improvement, cash flow reserve, maintenance projects, etc. The board designates and they may reverse their decision at any time. The funds may be used for other operating expenses or as the board sees appropriate. These funds are usually acquired from operations or fund drives for operations. **Reserve accounts** are a type of designated funds set aside by the board for specific purposes as mentioned above. These accounts are part of the operating fund, but are usually shown on a separate line item on the balance sheet.

Cost Analysis Worksheet

Overhead Costs

Building mortgage or rent _____
Maintenance/cleaning costs _____
Utilities (electricity, heat, water, telephone) _____
Administrative/nonteaching salaries _____
Payroll taxes/benefits _____
Office supplies, equipment, postage _____
Travel, meetings, dues _____
Staff development - nonteaching staff _____
Outside services (legal, accounting) _____
Insurance (liability, property, workers comp) _____
Vehicles/transportation _____
Other (depending on the business) _____

Total Indirect Costs _____
Divided by
number of childcare slots _____
Equals = **Overhead cost per slot** _____

Direct Costs

Teaching salaries _____
Payroll taxes/benefits _____
Staff development _____
Supplies (classroom consumables) _____
Learning materials/equipment _____
Special events _____
Other _____

Total Direct Costs _____
Divided by
number of childcare slots _____
Equals = **Direct costs per slot** _____

	Overhead Costs per Slot	_____
plus	**Direct Costs per Slot**	+ _____
Equal	**Total Cost per Slot**	= _____

Petty Cash

Is It OK To Have Cash Around?

Petty cash is a small amount of cash, under $300 for most small to medium size childcare businesses, that is used for small and unpredictable expenses. With careful planning very few expenses actually fall into the *unexpected* category. Examples might be a letter arriving postage due, or the milk delivery truck breaks down and you need to run to the store before lunch. Petty cash is managed like any other cash. It is kept in a locked place with limited authorization to dispense.

Petty cash forms are used to record any expenditure. Information recorded includes dollar amount, item purchased, account number to be charged, date, person paid, and person authorizing expenditure. At all times, the amount of cash plus the forms submitted need to equal the starting amount for the petty cash fund. Regularly the petty cash is reconciled and a check is requested to bring the cash up to the starting level. At that time the expenditures are charged to the appropriate expense accounts.

Purchase Orders

How Do We Know If Purchases Are Authorized?

As a tool to keep expenditures within the budget, many businesses implement purchase order systems. Forms list the purchase order number, item, dollar amount, account to be charged, date, person requesting the purchase, and signature of person approving the purchase order.

Approval is required to purchase items for the business. Before an item is approved, the manager reviews the planned expenditures, account status for the month, and cash flow. In some larger organizations, purchase orders up to a certain dollar amount are decentralized if department managers maintain financial accountability for their area.

Purchase orders can then be tracked by number to the accounting system for verification of invoices for items purchased.

Receipting Income

How Do We Account For Every Penny?

All money taken into the business needs to be logged as income, credited to an income account, and deposited in the bank daily. Even in businesses with small numbers of financial transactions, cash and checks should not be left in the business overnight. At times of high activity, several bank deposits are made daily to protect the income.

The higher percentage of revenue received in the form of **checks**, as opposed to cash, the better. Checks are stamped with the business name and "for deposit only" as soon as they are received. This makes them nonnegotiable in the event that they be lost or stolen.

For **cash** received, a written receipt is given to the customer for their payment record. Most businesses opt to provide receipts, either computer or hand generated, for payments by cash or check. This provides back up records for both the customer and the business.

A potential pitfall of receiving of income sometimes occurs with special events such as field trips. Children each bring three dollars to pay for the zoo trip. The temptation exists to collect the money, carry it to the zoo, and pay for admission. However, if the business is collecting money from it's customers, it needs to be recorded as income and deposited in the bank. A business check, or if necessary petty cash, is used to pay for the trip. Failure to do this can put the business in jeopardy for having underreported it's income for tax purposes. Even the not-for- profit business, which will not end up paying profits taxes, is still required to report all income on it's annual tax report.

Accounts Receivable

Who Owes Us What?

Many financial systems, from sophisticated computer software to hand kept ledger cards, are available to track tuition payments due and paid. Part of the financial responsibility of the management team is to know

what income is due and have a defined system of recovering any outstanding money. Any amount owed to the business is considered an "account receivable". The timeliness of receiving the money due is referred to as the "aging" of the accounts. The older accounts are allowed to get, the greater the impact on cash flow of the business. For this reason, the system chosen for tracking receivables needs to be closely monitored. Most business find that allowing past due accounts to pile up, results in writing off receivables as uncollectible and never receiving the payment.

Many forward looking childcare businesses have become highly creative in maintaining extremely low accounts receivable. They begin by having tuition paid one week in advance so they are not delivering the service prior to the payment. This positively impacts cash flow as well as collections. Options include availability of payment by credit card, bank draft, smart cards, or payroll deduction. Some offer a discount for paying monthly in advance as opposed to weekly payments. Strategies that offer convenience to busy parents usually result in more prompt payment for the business.

Accounts Payable

What Do We Owe and When?

A fiscally responsible business needs to know what bills are coming due and when. For cash flow planning, regular expenditures such as fixed costs (mortgage or rent), utilities, salaried employees payroll, and loan or equipment payments can be paid on a set schedule each month.

Many businesses pay invoices in weekly batches according to the due dates. In this way, prompt payments can be planned. Invoices received for payment are tracked back to the purchase orders and packing slips to assure that the purchase was authorized and was received as billed.

Timing of bill payment is dependent, of course, on cash flow. To best monitor the cash available, running cash status reports are a valuable management tool. As noted in the discussion of current ratios, a businesses ability to handle it's current debt load is among the key indicators of financial strength.

Financial Statements

How Are We Really Doing Financially?

The financial statement provides four key pieces of management information:

1. Total revenue and expense for a given time period by account name/number

2. Comparison of the actual income and expense with the planned income and expense projected in the budget

3. Dollar variance from planned budget by dollars and/or percentages

4. Comparison to last year or a previous time period to track financial trends

The financial statement is designed in the same format as the budget with departments and line items geared to the specific business. Following is a sample financial statement format with the accounts listed in the left column, and six columns of information to the right. Each column gives specific information about the total financial transactions occurring in the period of the report.

Columns A, B, and C refer to the current period reported in this statement:

Column A - Actual income/expense recorded for the period

Column B - Projected income/expense for the period. This figure for each line item comes directly from the budget established for that item for the period.

Column C - Difference between columns A and B. these numbers indicate how close the actual revenues and expenses are to the plan. A positive number (+) indicates the financial condition being better than anticipated. For revenue this means more dollars than were projected to

be brought in. For expense this means less expenditure than was projected in the budget. A negative number indicates the financial condition being worse than anticipated, less income or more expense.

Columns D, E, and F refer to the year-to-date totals:

Column D - Actual income/expense for the fiscal year so far
Column E - Projected income/expense year to date, from the budget
Column F - Variance, the difference between actual and budget

Interpreting the Financial Statement

Checking the Bottom Line is key to assessing the overall performance of the business. This figure, the difference between income and expense, indicates whether the business has brought in more than it has spent or spent more than it has brought in, during the time period. However, in isolation, this figure tells little about the *ongoing* financial condition of the business. The "bottom line" does not give a picture of the financial situation before the current period or a measure of where the business needs to be to insure liquidity in the coming months. Further analysis will give a more complete picture of the business finances.

Revenue can be analyzed first for the totals of each line item compared to the budget for that item. By checking the status of each account, information for management decision making can be derived. For example, is revenue below the budgeted amoung for the toddler department? Then it is time to explore the situation and ask questions. "Is enrollment declining, have families changed status to part time. Is there a problem with prompt billing or timely payments?" When the financial facts are in, managers can explore the operations for the "where" and "why" of the variance from the planned budget.

Moving from specific line items, to department summaries and overall business totals, emerging trends can be identified. When financial statements are studied regularly, course corrections can be made prior to major financial impact. On the positive side, revenue may be higher than anticipated due to larger than budgeted enrollment or new sources of revenue for the business. The financial challenge in this situation is to monitor and insure that growth in revenue continues to stay ahead of

growth in expense. In other words, if it costs more to produce revenue/program growth than it brings in, has the business planned and prepared for the loss period?

Expense is also analyzed line by line and compared to the budget plan. Staff who have financial accountability will review their areas, noting any adjustments needing to be made in upcoming spending. Variations due to program growth or unexpected expense are noted and adjustments can be planned. While it may seem obvious, a sometimes overlooked reality is that any expense above the budgeted amount needs to be offset if a balanced budget is to be regained. An unbudgeted expense may be countered by reduced expenses in another area or additional income received (such as when enrollment grows faster than projected). A potentially dangerous financial habit is to spend more than is budgeted this month with the idea that "we'll just spend less next month." If timing of needs makes it necessary to accelerate expenditures, it is prudent to decide exactly which items from which line accounts will be adjusted in the coming months to offset the overage this month. By following this process, each expense is planned and financial balance can be maintained.

At times, a budgeted expense may fall in a different month than projected in the budget. A footnote of explanation can accompany the financial statement to clarify the situation to boards or other stakeholders reading the financial statements. In such cases, the decision is of timing rather than *adding* an expense.

After each financial statement is reviewed, plan to write a financial summary. Not only will this be valuable in interpreting the information concisely to the board or supervisor, it becomes historical perspective on the month's financial activity. While the information is fresh, record it for use in preparing the next year's budget and cash flow projections.

Financial Statement as a Tool for Cash Flow Decision Making

Can We Afford To Buy It Now?

Cash flow will dictate the timing of expenses. When the budget says we *plan* to purchase new playground equipment in April, cash flow needs to support the purchase as well. The technique of assessing current financial strength solely by the dollars in the bank today is often referred to as "management by checkbook". The potential pitfall of this method is that current cash available does not give an indication of future cash needs.

We may have what appears to be an extra $10,000 in our cash flow today. Should we make some of those purchases we've been hoping for? Through cash flow and budget projections for the coming months, the cash needs can be assessed. Has our operation generated extra cash through increased revenue and/or decreased expense? Or is it a matter of timing and the cash will be needed for planned expenses later. Certain months are likely to be projected as "surplus" months and others "loss" months, dependent on timing of income and expense. The cash surplus needs to be built up to avoid cash flow shortages in the "loss" months.

At Playworks, a large childcare and family fun program in Prior Lake, Minnesota, each department manager has a computerized running total of revenue and expense for their area. Before preparing a purchase order for an expenditure, they compare their up-to-the-minute financial figures to the budget for that month and adjust their spending accordingly. Through this very timely financial control, decentralized to the day-to-day managers in each department, small course corrections allow a large program to watchdog their finances very closely. When daily management decisions are based on accurate and very current information, there are no surprises on the monthly financial statement; it serves as a summary of the month's financial activity.

Financial Statement Worksheet

	Current Month			Year-to-Date		
	A	B	C	D	E	F
	Actual	Budget	Variance	Actual	Budget	Variance
Revenue						
Accounts						
Registration fees						
Tuition						
Meals						
Events						
Other						
Grants						
Interest						
Total Revenue	$	$	$	$	$	$
Expense						
Accounts						
Salaries						
Payroll taxes						
Benefits						
Training						
Travel						
Contracts						
Insurance						
Utilities						
Telephone						
Postage						
Printing						
Supplies						
Food						
Equipment						
Total Expense	$	$	$	$	$	$
Surplus/(Deficit)	$	$	$	$	$	$

The Balance Sheet

Is This Business an Asset or Liability?

The balance sheet shows the *balance* between what the business owns (assets) and what it owes (liabilities). The greater the balance leans in favor of assets, the stronger the business is financially. In the next section we will review several common ratios which can be calculated as a quick way to interpret the financial strength of the business based on information from the balance sheet.

For our purposes here, we will concentrate on interpreting the information on the balance sheet for use in making financial decisions for the business. We will not go into the detailed accounting processes of putting the balance sheet together. Resources for building the balance sheet include many publications specifically on balance sheet accounting. Widely used financial computer software programs, designed either for childcare or general business functions, have built in balance sheet generation. Software packages can produce balance sheets with input of information on long term/fixed assets and long term liabilities (current assets and current liabilities are taken directly from the operating statement portion of the software). Many businesses also have an accountant prepare their balance sheet along with monthly financial statements.

Parts of the Balance Sheet

Current Assets are cash and other liquid items like cash. Cash in operating accounts is included, along with reserve or savings accounts not restricted funds for special projects. Current accounts receivable, which are reliable and will be received within 30 days, are also current assets. Any stocks, securities, or moneymarket funds which can be turned into cash at the business' discretion are included. Inventory is a current asset because it can readily be turned into cash. Any prepayed expenses, such an annual insurance premium paid in advance are included because cash will not be outlayed in the coming months for the expenditure. Current assets reflect the amount of money available to pay operating expenses at the time the balance sheet is prepared.

Fixed or Long Term Assets refers to property and equipment owned. Generally they will be divided into land, buildings, leasehold improvements (renovations/improvements made to leased property), and equipment (usually individual items over $500 such as kitchen equipment or vehicles, or like items where the aggregate is over $500 such as ten cribs at $100 each could be considered a $1000 asset).

Depreciation is calculated on all long term assets. By depreciating, the purchase of an asset is amortized over a number of years versus considering it an expense all in the year of purchase. Small items under $500 are "expensed" and considered a purchase in that one year only. Land and buildings are often depreciated over twenty years, with major equipment (furnaces, playgrounds) ten years and smaller equipment (appliances) and vehicles five years. If an asset is depreciated over five years, for example, then one fifth of the value is removed each year from the property heading and placed in the accumulated depreciation heading. This shows that the property is still in the business but that part of it's value has been "written down".

Many businesses make plans to "fund" depreciation by putting the amount of the depreciation each year into a reserve account for replacement and repair. When funding depreciation, it is written in as a line expense item in the operating budget and the cash then transferred to a board designated reserve account.

The balance sheet may not, under normal circumstances, reflect the actual market value of land and buildings. Property may likely be gaining value (appreciating) in the time it is depreciated on the balance sheet. Often a footnote will be added to the balance sheet with an approximate market value of the property. When a business sells property, either the entire business or the assets, the value of the land and buildings will be "stepped up" to reflect the market or sale price. The buyer will begin their balance sheet with the value reflecting the price at the time.

Current Liabilities are the dollar amounts currently (or in the short term) owed by the business. This includes accounts payable, any short term loans, the amount due this year on long term loans such as mortgages, and accrued expenses (such as an annual insurance premium that

is paid at the end of the year. If six months of the bill cover the current period of time, half of the bill is considered an "accrued" expense charged to current liabilities even if the cash goes out later). Current liabilities are the expenses that current assets (cash) need to cover if the business is to remain up to date on payments.

Long Term Liabilities are mortgages, long term loans or leases, or any items deferred for payment beyond the current year. These reflect commitments that the business has entered into and obligations that need to be covered financially in the future. Generally, long term liabilities are fixed through contractual arrangements and cannot easily be dissolved. Therefore they are considered part of the businesses long term future financial plans.

Owners Investment or Initial Capital may appear on a balance sheet to show the amount of money originally put into the business. This figure is necessary in calculating return on investment of the owner or stockholders in a for profit corporation.

Retained Earnings is the accumulated surplus or deficit since the founding of the business. This may be a positive (surplus) or a negative (deficit) number. If there has been a surplus, those dollars may have retained in the business (cash, growth, buildings, equipment, operating expenses) or may have been distributed to stock holders (if the business is classified as a not-for -profit retained earnings must stay within the company and are not distributed).

Total Assets is the total of the current and fixed assets minus the accumulated depreciation of those assets.

Total Liabilities is the total of current and long term liabilities.

Net Worth is the difference between the total assets and the total liabilities of the business. Net worth is a positive amount when the assets exceed the liabilities. Net worth is negative when the liabilities exceed the assets. On a balance sheet the assets will always equal the sum of the liabilities plus the net worth.

Who Uses a Balance Sheet and Why?

The balance sheet tells the financial worth of a business; plus, with some analysis, is a good indicator of past, present, and future strength of the business. The information is used by managers to assess current position when contemplating growth (expanding with additional classrooms or locations), capital expenditures (new building, playground, kitchen), or taking on debt of any kind. Will the cash be there to repay the loans, handle the purchase of additional equipment, or the start-up costs of a new enterprise.

Boards or governing bodies use the balance sheet to assess the performance of a business and it's management. Is the business being financially strengthened under the current leadership?

Banks and lending institutions use the balance sheet to check the ratios (see next section) of the business. In considering mortgages or loans, lenders need good assurance that a business will have the capability of repayment. They will study the balance sheet for indications of past and current strength and make predictions for the future.

Many childcare organizations apply for public and private grant money. Grantors need to show that money they give will be used prudently for the purpose it is intended. Much of the grant committees knowledge of an organization's strength comes from a proven financial track record of strong balance sheets.

In the Financial Toolbox Section is a sample balance sheet with each part labeled for understanding of information flow of the tool.

Indicators of a Healthy Balance Sheet

Bankers, financial managers, boards, and CEO's can use financial ratios to assess the strength of a business. Several of the most common and useful ratios are explained below.

Current Ratio

Current ratio is an example of liquidity ratio, how liquid is a company,

or how available is cash to pay it's current bills. Generally, the higher the current ratio, the greater the "cushion" between current obligations and the company's ability to pay them. To compute a current ratio, divide the current assets by the current liabilities, as shown below:

Current assets	$100,000
Current liabilities	$50,000

In this example, the **current ratio equals two.** Current assets are twice as large as current liabilities. This indicates a moderately comfortable ability to service current debt. Current debt refers to all bills currently due, including payroll, invoices payable, rent or lease payments, and payments due now for long term debt such as mortgages, start-up capital or other loans. In another example, if the numbers are reversed:

Current assets	$50,000
Current liabilities	$100,000

Current ratio is .5, indicating current assets only half as large as current liabilities. A business in this situation finds it difficult to keep up with current financial obligations, and without additional capital or other intervention, faces the possibility of not being able to remain in business. This ratio is crucial to the ongoing strength of the business and is used widely by bankers, other lenders, or even grant committees to judge whether a business has the cash flow to repay debt, or in fact, be financially viable in the coming months.

Debt/Worth Ratio

Debt/worth ratio is an example of a coverage ratio, a businesses ability to cover longer term debt with assets. The ratio expresses the amount of capital in the business which has been provided by the owners (or donated in a not-for-profit) versus the amount acquired through loans which need to be repayed. Compute the debt/worth ratio by dividing the total liabilities by the net worth.

Total Liabilities	=	$60,000
Net Worth	=	$180,000

Debt/Worth ratio is .33 meaning net worth is approximately three times the liabilities. The smaller the number (lower the ratio) the stronger the company's long term financial safety. A company with a low debt/worth ratio usually has greater flexibility to borrow money for expansion or improvements. In cases where the net worth is zero or negative, where the company owes more than it owns, the debt/worth ratio is stated as a negative number. This is a weaker position than even the largest positive number.

Operating Ratios

Operating ratios assist in the evaluation of management performance. One example useful in the childcare field is described as the ratio of **sales to net assets**. For our purposes we will define sales as income generated from tuition fees, whether paid by parents or funding agencies on behalf of parents. Net fixed assets are the fixed assets (property, buildings, major equipment) less accumulated depreciation.

Sales	=	$800,000
Net Assets	=	$1,000,000

The ratio of sales to net assets is .8. This indicates that for every dollar of assets owned by the company, eighty cents is being generated in income this year. The higher the number of the ratio, the more the management is generating income from their available asset investment. This ratio is helpful in deciding how long it will take to repay the investment in equipment for a new classroom, for example.

If we invest an additional $30,000 for equipment to open a new classroom (assuming space was already covered in our $1,000,000 assets), know that our ratio is .8 as above, and can expect to generate $130,000 additional income (20 enrollments @ $130/week for 50 weeks), we can figure the following:

Sales	=	$930,000
Net Assets	=	$1,030,000

Here the ratio is .9, meaning ninety cents being generated for every dollar of investment. Therefore, this investment would be wise because it increases the sales volume per dollar invested.

Balance Sheet Worksheet

ASSETS

Current Assets

1. Cash _____
2. Accounts Receivable _____
3. Prepaid Expense _____
4. Other _____

5. Total Current Assets (lines 1-4) _____

Fixed Assets

6 .Land _____
7. Buildings _____
8. Lease Improvements _____
9. Major Equipment _____
10. Other _____

11. Total Fixed Assets (lines 6-10) _____
12 Accumulated Depreciation _____
13. Net Fixed Assets (line 11 less 12) _____

14. Total Assets (add lines 5 and 13) _____

LIABILITIES AND NET WORTH

Current Liabilities

15. Taxes Payable _____
16. Accounts Payable _____
17. Short Term Loans _____
18. Other _____

19. Total Current Liabilities (15-18) _____

Long Term Liabilities

20. Loans Payable _____
21. Mortgage _____
22. Other _____

23. Total Long Term Liabilities(20-22) _____
24. Total Liabilities (lines 19 + 23) _____
25. Unrestricted Funds _____
26 Restricted Funds _____
27. Retained Earnings (line 14 less 24) _____
28 Equity Fund Balance (add 25-27) _____

TOTAL LIABILITIES AND FUND BALANCE _____
(add lines 24 & 28 - must equal line 14)

Upcoming Information for the CEO

No, This Isn't All I Need To Know?

The Early Childhood Director's Association (ECDA) recognizes that financial and management information valuable to CEO's is growing exponentially. We view this book as part of a working financial handbook and present it in a binder format so you can customize the chapters with information specific to your own business. We also plan to make additional chapters available in the future. Ideas under consideration are:

- Computer Software for Childcare Business Finances
- Fundraising and Grant Writing
- Inventory and Fixed Asset Management
- Financial Compensation Strategies
- Business Partnerships and Corporate Alliances
- Leases and Financial Contracts
- A Financial Management Strength Assessment Tool

Please let us know which of these would be valuable to you and your business. We also believe that you have great ideas about information that would helpful to you. Give us a call at ECDA so we can incorporate your suggestions in our CEO updates.

Cost Analysis Worksheet

Overhead Costs

Building mortgage or rent _____
Maintenance/cleaning costs _____
Utilities (electricity, heat, water, telephone) _____
Administrative/nonteaching salaries _____
Payroll taxes/benefits _____
Office supplies, equipment, postage _____
Travel, meetings, dues _____
Staff development - nonteaching staff _____
Outside services (legal, accounting) _____
Insurance (liability, property, workers comp) _____
Vehicles/transportation _____
Other (depending on the business) _____

Total Indirect Costs _____
Divided by
number of childcare slots _____
Equals = **Overhead cost per slot** _____

Direct Costs

Teaching salaries _____
Payroll taxes/benefits _____
Staff development _____
Supplies (classroom consumables) _____
Learning materials/equipment _____
Special events _____
Other _____

Total Direct Costs _____
Divided by
number of childcare slots _____
Equals = **Direct costs per slot** _____

	Overhead Costs per Slot	_____
plus	**Direct Costs per Slot**	+ _____
Equal	**Total Cost per Slot**	= _____

Financial Statement Worksheet

	Current Month			Year-to-Date		
	A	B	C	D	E	F
	Actual	Budget	Variance	Actual	Budget	Variance
Revenue Accounts						
Registration fees						
Tuition						
Meals						
Events						
Other						
Grants						
Interest						
Total Revenue	$	$	$	$	$	$
Expense Accounts						
Salaries						
Payroll taxes						
Benefits						
Training						
Travel						
Contracts						
Insurance						
Utilities						
Telephone						
Postage						
Printing						
Supplies						
Food						
Equipment						
Total Expense	$	$	$	$	$	$
Surplus/(Deficit)	$	$	$	$	$	$

Balance Sheet Worksheet

ASSETS

Current Assets

1. Cash _____
2. Accounts Receivable _____
3. Prepaid Expense _____
4. Other _____

5. Total Current Assets (lines 1-4) _____

Fixed Assets

6 .Land _____
7. Buildings _____
8. Lease Improvements _____
9. Major Equipment _____
10. Other _____

11. Total Fixed Assets (lines 6-10) _____
12 Accumulated Depreciation _____
13. Net Fixed Assets (line 11 less 12) _____

14. Total Assets (add lines 5 and 13) _____

LIABILITIES AND NET WORTH

Current Liabilities

15. Taxes Payable _____
16. Accounts Payable _____
17. Short Term Loans _____
18. Other _____

19. Total Current Liabilities (15-18) _____

Long Term Liabilities

20. Loans Payable _____
21. Mortgage _____
22. Other _____

23. Total Long Term Liabilities(20-22) _____
24. Total Liabilities (lines 19 + 23) _____
25. Unrestricted Funds _____
26 Restricted Funds _____
27. Retained Earnings (line 14 less 24) _____
28 Equity Fund Balance (add 25-27) _____

TOTAL LIABILITIES AND FUND BALANCE _____
(add lines 24 & 28 - must equal line 14)

Income Budget Worksheet

For January through December _____

Site: _____

Today's Date: _____

Name: _____

Title: _____

Round to Hundreds	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
Revenues													
1 Tuition													
2 Optional Programs													
3 Registration Fees													
4 Product Sales/Fundraising (Net of Product Cost)													
5 Government Subsidies													
6 Private Subsidies (Subsidies exclude in-kind)													
7 Other Revenue													
8 (add lines 1-7) Total Revenue:													
9 Total Operating Expenses: (from Expense Budget)													
10 = Income Before Taxes: (subtract line 9 from line 8)													
11 less Income Taxes													
12 Net Income: (subtract line 11 from line 10)													

Expense Budget Worksheet

For January through December _____

Page A of two pages

Site: _____

Today's Date: _____

Name: _____

Title: _____

Round to Hundreds	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
1 Owners/Administrative Salaries													
2 Program Staff Salaries													
3 Payroll Taxes													
4 Workers' Comp Insurance													
5 Group Insurance													
6 Special Instructors													
8 Continuing Education													
9 Activities Expense													
10 Curriculum Materials													
11 Small Equipment Purchases													
12 Print/ Copy													
13 Food													
14 Building Rent													
15 Utilities													
16 Repair and Maintenance													
17 Janitorial													
18 Security													
19 Property Taxes													
20 Vehicle Lease/Rental or Mileage													
21 Vehicle Repair & Maintenance													
22 Vehicle Gas & Oil													
23 Accounting & Legal Fees													
24 Other Professional Fees													
25 Computer Expense													
26 Supplies Teaching													
27 Supplies Office													
28 Supplies Kitchen													
29 Supplies Janitorial													
Page A Subtotals:													

continue on page B

Expense Budget Worksheet

Site: _____

For January through December _____

Page B of two pages

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
Subtotals from Page A:													
30 Telephone													
31 Postage													
32 Equipment Rental/Lease													
33 Bank Service Charges													
34 Contributions/ Donations													
35 Dues/ Subscriptions													
36 Insurance - Building													
37 Insurance - Vehicle													
38 Insurance - Liability													
39 Insurance - General													
40 Licenses/ Fees													
41 Penalties/ Fines													
42 Travel/ Entertainment													
43 Advertising													
44 Public Relations/ Promotion													
45 Depreciation													
46 Fundraising Expense													
47 Scholarships Expense													
48 Miscellaneous													
49													
50 Total Expenses: (pages A+B)													

Cash Flow Projection Worksheet

For January through December _____

Site: _____

Today's Date: _____

Name: _____

Title: _____

Round to Hundreds	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
Beginning cash balance													
Cash Oper Income													
Total Available Cash													
Less:													
Cash Oper Expenses													
Capital expenditures													
Interest													
Dividends													
Debt retirement													
Other													
Total Disbursements													
Cash Balance (Deficit)													
Add													
Short-term loans													
Long-term loans													
Capital stock issues													
Total Additions													
Ending Cash Balance													